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SUBJECT: EGYPT: SCENESETTER FOR SECRETARY RICE'S VISIT

REF: A. CAIRO 4336
 1B. CAIRO 4309
 1C. CAIRO 4263
 1D. CAIRO 4125

Classified by Charge Gordon Gray for reasons 1.4 (b) and (d).

Introduction

11. (C) Madame Secretary, Embassy Cairo warmly welcomes your visit to Egypt and looks forward to the opportunity to advance U.S. interests. Political reform, Egypt's desire for a free trade agreement (FTA), Gaza disengagement, Iraq, and Sudan are likely to be the issues on the top of the agenda of your GOE interlocutors (President Mubarak, Intelligence Chief Soliman, and Foreign Minister Aboul Gheit). On each issue, you will want to stress the need for Egypt to play an ongoing leadership role. Some of the reform advocates you will meet for lunch will likely argue that the regime has no intention of pursuing anything but "cosmetic" political reform, while others, closer to the establishment or "working within the system," would disagree and counsel patience. You can also expect a high level of media interest in Cairo. End introduction.

Political and Economic Reform

12. (C) Adapting to change is not Egypt's strong suit. Tradition and entrenched bureaucracy have guided society along the Nile for thousands of years and President Mubarak has used "stability" as the watchword of his 24-year reign. As Egypt witnesses the world changing around it, and sees its own leadership credentials questioned by a quickened pace of change in the Middle East, Egyptian society is slowly acknowledging the need for a more open economic and political system. Mubarak must also recognize that stability is only sustainable over the long term through more democratic modes of political administration.

13. (C) Forced by both internal necessity and external pressure to give the public a broader political "space," the Egyptian regime has in recent years made evolutionary adjustments. Economic reforms, which had been a well-worn topic for some years, got a boost when Ahmed Nazif, the reform-minded former Minister of Communications and Information Technology, was named prime minister in July 2004. Nazif's government, with young, business-oriented ministers, has in less than a year implemented sweeping reforms, including substantial reductions in customs tariffs and income and corporate taxes, as well as privatization of public companies. The Central Bank of Egypt has stabilized the exchange rate; for the first time in years hard currency is readily available and the black market for dollars has virtually disappeared. Inflation has dropped from 12 to 9 percent since last July. The Ministry of Finance recently submitted a draft budget to Parliament for the next fiscal year that is significantly more transparent than in previous years, a refreshing indication of improved governance that we have been encouraging for some time. Egypt is also now exporting products under the Qualifying Industrial Zone (QIZ) agreement with Israel, signed in December 2004.

14. (C) Several long-standing bilateral trade issues have been resolved, indicating the Nazif administration's seriousness in preparing for an FTA. Deputy USTR Allgeier visited Cairo June 7-9 for a conference of African trade ministers; discussions of an FTA dominated his bilateral meeting with GOE Trade Minister Rachid and the related press events. One of the few economic issues President Mubarak consistently raises with U.S. visitors is his interest in an FTA.

15. (C) Nazif has also begun reforming Egypt's stifling bureaucracy and burdensome public subsidies. These signs of economic maturity are encouraging, yet must be sustained, invigorated, and accompanied by progress on political reform to make the difference in Egypt's pursuit of greater prosperity -- and to lay the foundation for serious discussion of a free trade agreement.

16. (C) Political change comes more slowly. While the regime's rhetoric is filled with promise (including in

presidential son and ruling party policy chief Gamal Mubarak's May 29 speech to the American Chamber of Commerce in Egypt, reported ref C), concrete steps have been sporadic. Of these, the most significant is easily President Mubarak's initiative to amend the constitution to allow for competitive presidential elections. This step, most observers agree, was historic in that it broke the presumed military grip on the presidency. While the amendment is unlikely to yield dramatic change this year, it has the potential to transform the political landscape over the next five years, depending on the transparency of the next legislative elections and the composition of the parliament they yield.

¶17. (C) In the near term, decades of government control over political activity and periodic reliance on emergency law measures have left their mark on a society now ill prepared to produce alternative leadership. As people consider future alternatives, emerging protest movements are finding limited space in which to voice dissenting views. That space appears to be widening. The regime is facing the right direction on political reform and is looking cautiously into the future, but it now needs to take practical steps forward.

¶18. (C) Practical steps we are encouraging Egypt to take include revoking the emergency law (which the GOE justifies by citing security concerns and Islamic extremist activities), the establishment of two independent electoral commissions (one each for presidential and parliamentary elections), and international election monitors during presidential and parliamentary balloting (Egypt wants no "intervention" or "supervision," yet may in the end offer the "compromise" of "observers"). We want to see increased domestic election monitoring and more open media participation as well. We are also encouraging Egypt's tentative steps toward decentralization of government functions.

¶19. (C) We are using both the Middle East Partnership Initiative (MEPI) and our substantial USAID assistance program to provide tangible help to those seeking to boost democracy in Egypt, including grants supporting efforts to make this year's elections fairer and more free. U.S. assistance in the political realm is very controversial, sometimes leading to pointed criticism of both the U.S. for "interference in domestic affairs" and recipient organizations for allowing "foreign funding" to distort their views, but we are pressing ahead.

The Palestinian Question

¶10. (C) For most Egyptians, the plight of the Palestinians is an emotional issue. Sensitive to public sympathies, the GOE walks a fine line as it engages both Palestinian and Israeli leaders diplomatically. President Mubarak's hosting of Prime Minister Sharon and President Abu Mazen in Egypt on February 8 was representative of the GOE's strong tradition of engagement with both sides. Coordination efforts by Egyptian General Intelligence Service Chief Omar Soliman are frequent and effective. Foreign Minister Aboul Gheit will visit Israel June 19, but Mubarak clearly gives primary responsibility for this portfolio to Soliman.

¶11. (C) In his June 6 discussion with U.S. Security Coordinator LTG Ward (ref A), Soliman articulated his oft-stated view that only the USG has the clout to ensure progress in Palestinian-Israeli reconciliation. He argued for increased dialogue between the security services, for example, noting that positive encouragement from the U.S. was needed to facilitate a higher degree of cooperation. Soliman also expressed concern about Gaza disengagement, noting that Israel had not clarified the scope or timetable of its plans; he stressed that a total and carefully coordinated disengagement was needed. He cited no progress on the deployment of Egyptian border guards to the Rafah area, an issue pending Israeli approval.

Iraq

¶12. (C) President Mubarak reflected Egyptians' skepticism regarding Operation Iraqi Freedom from the outset, yet quietly facilitated the movement of U.S. military assets through the region and thereby enabled our coalition effort. In the long months of political maneuvering that followed the liberation of Iraq, Egypt has played a positive if sometimes measured role in helping integrate the new Iraqi leadership into the international community. The GOE also trained a number of police and military officers (at facilities in Egypt), although those programs were one-time contributions that lost steam partially due to weak Egyptian engagement with Baghdad. We have pressed Egypt to fully upgrade its diplomatic relations with Iraq and Egypt has sent an Ambassador to Baghdad.

¶13. (C) Egypt's international efforts to help Iraq include hosting a large ministerial in November 2004 (in Sharm El Sheikh). More recently, Steering Group members (U.S., EU, Iraq, Japan, UN, Egypt, and Russia) met in Cairo June 2 to coordinate planning for the June 22 Ministerial meeting on Iraq in Brussels. Aside from issues of participation (i.e., Syria's exclusion and the eventual -- yet awkward for Egypt -- inclusion of Russia), the June 2 meeting helped set the stage for meaningful discussions in Brussels regarding Iraq's political, economic, and security needs (see ref B). The group addressed a seven-point agenda that included an Iraqi strategy document to be presented in Brussels on development priorities, conference logistics, a draft conference communique, a public relations strategy, and a conference follow-up mechanism.

¶14. (C) Viewing internal Iraqi politics with some concern, Cairo shares our view about the need for more robust Sunni participation in governance and in the constitution drafting process. Soliman has often expressed worries about Iran's influence and sees a larger Sunni role in Baghdad as an effective counterbalance.

Sudan

¶15. (C) Egypt has a keen interest in a stable Sudan -- a neighbor which straddles the Nile and has traditionally strong ties to Egypt. While Egypt's political tactics tend to give Khartoum the benefit of the doubt more than we have done, the GOE has made a strong effort to help ensure stability there. Egypt continues to be helpful to implementation of the Comprehensive Peace Agreement and plans to host negotiations June 12-18 between the leadership of the National Democratic Alliance (NDA) and senior Sudanese government officials.

¶16. (C) Furthermore, Egypt is backing up its political efforts with presence on the ground. In Darfur, Egypt has medical teams looking after the needs of the local population and military monitors participating in the African Union (AU) mission; Egypt has also dispatched over a dozen C-130 flights of humanitarian goods to Darfur and continues to work towards a peaceful settlement. Egypt is also poised to send a significant number of troops to southern Sudan, including engineers to work on infrastructure projects, under a UN umbrella. Both Egypt and the Arab League are actively looking at ways to bolster the economy of the south. SPLM leader John Garang's recent trip to Cairo continues a long series of engagement with both sides of the north-south conflict in Sudan.

Dealing with Foreign Minister Aboul Gheit's Style

¶17. (C) A cordial yet very protocol-conscious Aboul Gheit does not shy away from direct and sometimes impertinent comments during his meetings. Issues Aboul Gheit may raise that you should watch out for include the lack of a nominee to replace Ambassador Welch in Cairo. His staff was upset over the inclusion of Russia in the June 2 Iraq PrepCom in Cairo (ref D) and may still be smarting about what the Ministry believed was an invitation to Russia that should have been better coordinated with the GOE. The Minister has also been known to raise individual visa cases with senior USG officials which in fact turn out to be no issue at all (in one case complaining about our failure to issue a visa to a friend who had yet to apply).

¶18. (C) Finally, an equally protocol-conscious Laila Aboul Gheit, the Minister's wife, felt slighted during First Lady Laura Bush's May 23-24 visit when, because of the failure of her staff to coordinate with U.S. and Egyptian security officials (despite repeated U.S. admonitions to do so), she was prevented from following the First Lady's motorcade into the Alexandria airport by a U.S. security agent. She reacted to the incident very strongly, and Aboul Gheit may feel compelled to note this perceived slight in your presence.

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GRAY